

Office of the NEW YORK STATE

COMPTROLLER

Local Government Management Guide

Capital Projects Fund

New York State Comptroller

THOMAS P. DiNAPOLI

SEPTEMBER 2019

Table of Contents

Introduction	1
Overview of Capital Projects Fund Accounting	3
Planning the Project	6
Budgeting for the Project	7
Monitoring and Reporting	9
Closing Out the Project	10
Use of Municipal Employees and Equipment	11
Change Orders	13
Retainage on Contracts	14
Transfers From Capital Reserves	16
Capital Project Debt	18
Serial Bonds	18
Bond Anticipation Notes	20
Installment Purchase Contracts	23
Earnings on Investment of Debt Proceeds	25
Bank Accounts	26
Disposition of Unexpended Balances	27
NYS Environmental Facilities Corporation – State Revolving Funds	29
Long-Term Loans	30
Short-Term Loans	37
Additional Resources	42
Notes	43
Division of Local Government and School Accountability Contacts	45

Introduction

Local governments undertake capital projects to acquire, develop, improve or maintain various facilities, other infrastructure and/or equipment. These projects are generally large in scale, require large sums of money and are long-term. A capital projects fund is used to account for the financial resources supporting capital projects during the life of the project. However, because capital projects are budgeted on an individual basis, and legal and contractual requirements vary from one project to another, the complexity of accounting for them can be a challenge.

The local governing board (board) is responsible for the oversight and management of capital projects, including ensuring that they are properly planned and managed, project funding is authorized and costs are kept within the approved budget.

This guide is intended to provide local officials with an overview of the use of capital projects funds and guidance on the fundamentals of accounting for capital projects.

Specifically, this guide will cover:

- An overview of capital projects funds, including the purpose of the fund and required accounting records.
- An overview of the life cycle of a capital project, including key steps to consider in planning, the importance of budgeting, and essential monitoring and reporting activities that should be performed by local government officials.
- Typical situations encountered and how to account for them in the capital projects fund:
 - Use of local government employees and equipment in a capital project;
 - Change orders for unanticipated conditions;
 - Accounting for retained percentages; and
 - Transfer of funds from capital reserves.
- Discussion of and journal entry illustrations for accounting for serial bonds, bond anticipation notes and installment purchase contracts.
- Available financing options from the New York State Environmental Facilities Corporation's Revolving Loan Fund, including sample journal entries for long-term and short-term loans.

In this guide, the term "local governments" generally refers to all municipal corporations (counties, cities, towns and villages), school districts and boards of cooperative educational services (BOCES), district corporations (e.g., fire districts), special improvement districts governed by a separate board of commissioners and public libraries.

Please note that the information presented in this guide is general in nature and may not necessarily apply to every situation encountered. For additional guidance, local officials are encouraged to contact the Office of the State Comptroller (OSC) regional office for their locality (see the Regional Office Directory at the back of this guide) and/or their legal counsel.

Additional OSC reference publications that may also be useful to local officials undertaking capital projects include:

- **Local Government Management Guide: Capital Assets**
- **Local Government Management Guide: Multiyear Capital Planning**
- **Local Government Management Guide: Multiyear Financial Planning**
- **Cost-Saving Ideas: Capital and Repair Reserve Funds for Town or County Water and Sewer**
- **Cost-Saving Ideas: Capital Planning for Local Governments and School Districts.**

Overview of Capital Projects Fund Accounting

Purpose of the Capital Projects Fund

The purpose of a capital projects fund is to account for the financial resources to be used for the acquisition, construction or improvement of major capital assets other than those acquired through proprietary or fiduciary funds. More specifically, capital projects funds are used to account for the acquisition or construction of capital assets and capital improvements financed through traditional sources such as special State and federal grants, the proceeds of bonds or notes and installment purchase contracts (IPCs) authorized by New York State (NYS) General Municipal Law (GML) Section 109-b.

The governing board is responsible for the oversight and management of capital projects, including ensuring that projects are properly planned and managed, project funding is authorized and costs are kept within the approved budget, while minimizing the possibility of cost overruns which could have a negative impact on finances.

The acquisition, construction or improvement of capital assets can be accounted for in a local government's operating fund (e.g., general, highway, etc.) if the resources are provided through the operating fund. However, if the acquisition or construction of a capital asset extends beyond one year, it should be accounted for in a capital projects fund.

The proceeds of indebtedness are generally the major funding source for capital projects. However, other financing sources can include any or all of the following: grants, State aid, federal aid, gifts and donations, budgetary appropriations (e.g., interfund transfers, fund balance), insurance recoveries and capital reserve funds.

Measurement Focus and Basis of Accounting

The capital projects fund is a governmental fund using the alpha code "H" derived from the NYS Uniform System of Accounts. Governmental funds measure the flow of current financial resources, such as cash and other current assets, and use the modified accrual basis of accounting to recognize transactions.

Revenues should be recognized in the accounting period in which they become available and to the extent that they represent an inflow of current financial resources. Revenues will be recorded as received in cash, except for revenues susceptible to accrual. Revenues from federal, State or other grants, if based on expenditure of funds, should be recognized when expenditures are paid.

Expenditures should be recognized in the accounting period in which the fund liability is incurred and to the extent that they represent an outflow of current financial resources. It is important to note that encumbrances are not expenditures. Instead, encumbrances represent funds set aside for planned future expenditures.

Required Accounting Records

A separate capital projects fund should be established for each authorized project. Separate funds are needed because capital projects are budgeted on an individual project basis, and the legal and contractual requirements vary from one project or class of projects to another. Occasionally, several related projects will be combined under a single authorization by the board and may be accounted for in a single capital projects fund. For example, a series of street paving projects carried out over an extended period of time by a local government with funds provided by a single bond authorization and issue would be accounted for in a single fund.

Individual accounting records must also be maintained for each capital project and should contain sufficient information to track and report a project's complete financial history (i.e., resources received and expended). General ledger accounts are used to summarize all capital projects fund transactions. Subsidiary revenue accounts are used to record estimated revenues, actual revenues received and the balance to be realized. Likewise, subsidiary expenditure accounts are used to record appropriations as budgeted (with modifications), actual expenditures, encumbrances and unencumbered balances.

Expenditures are recorded by functional unit and use .2 to designate the object of expenditure as equipment and capital outlay. For example, H1620.2 would be the code for the construction of a municipal office building. At the discretion of the local government, expenditure coding can be expanded with subcodes to the right of the .2 object of expenditure to include various project phases or aspects. The following codes could be used, for example, to account for the expenditures related to the construction of a municipal office building:

Code	Description
H1620.21	Engineering/Architect Fees
H1620.22	Legal Fees
H1620.23	Use of Municipal Equipment and Personnel
H1620.24	Building Construction
H1620.25	Interest Expense*

* Interest on obligations issued for a project may be charged as a project expenditure during the construction period or as an expenditure in the operating fund responsible for the project (e.g., general fund).

While local governments may create their own internal subcodes to the right of the .2 object of expenditure within their accounting system, when reporting to OSC in the year-end annual update document (annual financial report), all .2 expenditure codes are reported in aggregate.

The liability for long-term obligations issued to finance a project will not be recorded in the capital projects fund, but will be accounted for in the Schedule of Non-Current Governmental Liabilities (W) account group. This includes the proceeds of bonds, capital notes and IPCs. The account codes are as follows:

Code	Description	Debit	Credit
W129	Total Non-Current Governmental Liabilities	XXX	
W623	Term Bonds Payable		XXX
W626	Bond Anticipation Notes Payable ¹		XXX
W627	Capital Notes Payable		XXX
W628	Bonds Payable		XXX
W685	Installment Purchase Debt		XXX
W689	Other Long-Term Debt (Specify)		XXX

Capital assets acquired through a capital projects fund are accounted for in the Schedule of Non-Current Governmental Assets (K) account group at the completion of a project or at year-end (e.g., Work in Progress). The account codes are as follows:

Code	Description	Debit	Credit
K101	Land	XXX	
K102	Buildings	XXX	
K103	Improvements Other Than Buildings	XXX	
K104	Machinery and Equipment	XXX	
K105	Construction Work in Progress	XXX	
K106	Infrastructure	XXX	
K107	Other Capital Assets	XXX	
K159	Total Non-Current Governmental Assets		XXX

Planning the Project

It is imperative that local officials take the steps necessary to ensure that essential capital projects are identified and that funds are available to finance them. To achieve these goals, officials need to develop a multiyear capital plan that will assist them in forecasting when financial resources may be necessary to support capital expenditures. A comprehensive capital plan allows local officials to establish priorities and determine the best method for paying these costs. For more guidance on developing a multiyear capital plan, see the OSC *Local Government Management Guide: Multiyear Capital Planning*.²

Once a project or acquisition is included in a capital plan, local officials should consider several factors prior to going forward with the listed projects or equipment acquisitions. The following questions should be answered prior to making final decisions on capital projects or acquisitions:

- Is there sufficient time to permit the local government to satisfy the necessary engineering and legal requirements, as well as to meet any public notice and public hearing requirements?
 - Will the project or purchase require mandatory or permissive referendums?
- Will the project or acquisition require competitive bidding or requests for proposals?³
- How will the project or acquisition be financed?
 - Is grant money available?
 - Have reserve funds been established with sufficient funds available to help finance the project?
 - Will operating funds be required to provide support for the project through interfund loans or transfers?
- Does the project or acquisition lend itself to consideration of a joint municipal project with a neighboring municipality or school district?
- Who will be responsible for overseeing the project? Can someone be hired specifically for this purpose or will this be an additional duty for someone already on the payroll?
- What is the projected time frame for project completion?
- Will periodic reports be required on the project's status?
- After the project is completed, will the local government have sufficient resources to pay for continuing operating and/or maintenance expenses?

Budgeting for the Project

Unlike other governmental funds that are required to have an annual budget, the budget of a capital project is project-oriented and is typically undertaken separately from (but may influence) the local government's formal annual budget process. However, each capital project needs a budget, and the budget should be recorded in the accounting records. The project budget should be for the project's life and amended only if the budgeted amount changes during the project. At fiscal year-end, the capital projects fund's budget is not closed out, unlike all other governmental funds. However, revenues and expenditures are closed out to fund balance.

The board is responsible for providing proper budgetary control and overseeing the capital projects fund's budget. It is essential to use budget modifications to prevent the over-appropriation of available funds. The board should use budget status reports to ensure compliance with required budgetary control procedures. Additionally, the board is required to ensure compliance with local policies (e.g., procurement, cash management and investment) and laws that would pertain to the capital project.

The following journal entries illustrate budgeting for the costs of an authorized \$2,175,000 capital project for the construction of a municipal office building and the manner in which it will be financed.

	Account	Subsidiary Account	Debit	Credit
	H510 Estimated Revenues		\$2,175,000	
	H5710 Serial Bonds	\$2,000,000		
	H5031 Interfund Transfer*	\$25,000		
	H3097 State Aid, Capital Projects	\$150,000		
	H960 Appropriations			\$2,175,000
	H1620.21 Engineering Fees	\$23,000		
	H1620.22 Legal Fees	\$13,500		
	H1620.23 Use of Municipal Equipment and Personnel	\$34,800		
	H1620.24 Building Construction	\$2,076,200		
	H1620.25 Interest Expense	\$27,500		

* Must also include an appropriation for the transfer in the general fund.

The project budget should periodically be compared with the actual revenues and expenditures. Because projects can span over several years, comparing the project budget with current year revenues and expenditures may not give an accurate picture regarding the project's finances. For that reason, records must be kept to allow the project budget to be compared to the actual revenues and expenditures over the project's life to get an accurate comparison. For example, the following illustrates how actual expenditures and encumbrances are compared to the project budget for a project that has spanned a three-year period:

		Actual / Encumbered				
		Modified Budget	2016	2017	2018	Available Balance
H1620.21	Engineering Fees	\$23,000	\$12,500	\$8,300	\$0	\$2,200
H1620.22	Legal Fees	\$13,500	\$6,500	\$4,200	\$1,250	\$1,550
H1620.23	Use of Municipal Equipment and Personnel	\$34,800	\$25,895	\$6,750	\$1,250	\$905
H1620.24	Building Construction	\$2,076,200	\$785,789	\$967,980	\$184,655	\$137,776
H1620.25	Interest Expense	\$27,500	\$0	\$18,450	\$9,050	\$0
Total Expenditures		\$2,175,000	\$830,684	\$1,005,680	\$196,205	\$142,431

Monitoring and Reporting

Regularly Monitor Financial Activity

Once a capital project budget has been established and the project has begun, local officials and/or their designees should monitor the project activity on a regular basis. At a minimum, such monitoring should include:

- A review of project expenditures and encumbrances in relation to the project budget and awarded contracts.
 - The board must amend the project budget when necessary to prevent appropriation items from being overdrawn.
- A review of the availability and timeliness of revenue sources identified in the capital budget.
- A confirmation of the adequacy of cash flow needs necessary for the timely completion of the project.
- A review of project status compared to initial projected timelines.

Report on Project Status and Activities

Producing project status reports will assist local officials throughout the project with tracking budgeted revenues and making informed decisions, such as considering change order requests and meeting cash flow demands. Meaningful reports provide a comparison of actual results to the project plan, and should include:

- Revenue and expenditure activity in comparison to the project budget, showing:
 - Available appropriations; and
 - Percentage of project budget expended.
- Percentage of project completed in comparison to the initial timeline projected.
- Significant changes to project scope or costs.

Closing Out the Project

Upon the project's completion, local officials should ensure that the necessary actions are taken to finalize the project, including the following:

- Ensure that the designated person (engineer, architect, etc.) signs off on the project's completion once the work has been determined to be satisfactory.
- Approve the project's closure and make sure that authorizing records are closed out appropriately within all the systems used to manage, monitor and report on the project.
- Confirm that the established procedures for the acceptance of project work and final project completion have been followed.
 - When applicable, held retainage amounts are released to contractors after satisfactory completion of contract work.
- Transfer residual project moneys to the applicable operating fund or reserve in the debt service fund.
- Confirm that new capital assets are properly recorded in the Schedule of Non-Current Governmental Assets.

Use of Municipal Employees and Equipment

If a local government uses its own employees and equipment for a capital project, the project should be charged for these costs. The manner in which the project and the contributing fund(s) are charged depends on whether the services were intended to be treated as an in-kind contribution to the project or as a reimbursable cost.⁴

Example: The gross payroll for a crew from a village department of public works (DPW) for a pay period was \$1,000. The crew spent 40 percent of the pay period performing excavation work for a village building project and the other 60 percent maintaining village streets. In addition, village excavation equipment was used for six hours on the project at \$75 per hour (pursuant to the NYS Department of Transportation rental schedule).

If the village board's intention is to have the general fund contribute in-kind services to the capital project, the accounting entries are:

1. To record the village's gross payroll for the pay period in the general fund.

Account	Subsidiary Account	Debit	Credit
A522 Expenditures		\$1,000	
A5110.1 Maintenance of Roads, Pers Serv	\$600		
A8662.1 Public Works, Site Improvements	\$400		
A200 Cash			\$1,000

2. To record the use of village employees and excavation equipment as a project expenditure in the capital projects fund.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$850	
H1620.23 Use of Municipal Equipment and Employees	\$850		
H2780 Contributed Services			\$850

However, if the village board requires the capital projects fund to reimburse the general fund for the use of DPW personnel and equipment, the accounting entries are as follows:

1. To record the village's gross payroll for the pay period in the general fund.

Account	Subsidiary Account	Debit	Credit
A522 Expenditures		\$600	
A5110.1 Maintenance of Roads, Pers Serv	\$600		
A391 Due From Other Funds		\$400	
A200 Cash			\$1,000

2. To record the general fund's voucher billing of the capital projects fund for equipment rental.

Account	Subsidiary Account	Debit	Credit
A391 Due From Other Funds		\$450	
A980 Revenues			\$450
A2414 Rental of Equipment	\$450		

3. To record the liability in the capital projects fund for the reimbursement to the general fund for DPW equipment and personnel used.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$850	
H1620.23 Use of Municipal Equipment and Personnel	\$850		
H630 Due To Other Funds			\$850

4. To record the payment from the capital projects fund to the general fund.

Account	Debit	Credit
H630 Due To Other Funds	\$850	
H200 Cash		\$850

5. To record the general fund's receipt of payment from the capital projects fund.

Account	Debit	Credit
A200 Cash	\$850	
A391 Due From Other Funds		\$850

Change Orders

Capital projects are complex undertakings. Good planning and ongoing project management usually allow them to be completed within the original cost and scope. However, unanticipated conditions may require change orders to authorize additional or reduced work.

A change order is a formal construction contract modification, agreed upon by both local officials and the contractor, to authorize a change in the work, an adjustment in the project cost or a change in the contract time. Because the board authorizes construction contracts and professional service contracts, it must also review proposed changes to these agreements. Change orders must be presented to the board for approval in a timely manner and should be reviewed by the board as promptly as possible to ensure each change order is approved before any additional work is started. Change orders will often result in modifications to the capital project budget, which also require board approval. The board should document their review and approval of change orders in the meeting minutes.

The following is an example of how to record an adjustment in the project budget reflecting a change order for unanticipated legal fees.

Account	Subsidiary Account	Debit	Credit
H510 Estimated Revenues		\$15,000	
H5031 Interfund Transfer	\$15,000		
H960 Appropriations			\$15,000
H1620.22 Legal Fees	\$15,000		

Retainage on Contracts

In construction contracts, retainage generally is a sum of money withheld by the local government from progress payments made to a contractor until satisfactory completion of work. Retainage is a form of security for proper completion of the work under the construction contract. It is typically calculated as a percentage of the progress payment. GML allows for local governments to retain up to 5 percent of each progress payment to the contractor when the contractor is required to provide a performance bond and labor and material bond, both in the full amount of the contract. In all other cases, the local government may retain up to 10 percent of each progress payment.

GML Section 106 provides that contractors, from time to time, may withdraw, at their option, the whole or any portion of the amount retained from the contractor's payments pursuant to the contract's terms, upon depositing with the municipality's fiscal officers (or if so directed by the fiscal officer, with a designated bank or trust company having an agreement with the fiscal officer), certain securities having a market value equal to the amount so withdrawn:

- United States of America (USA) bonds and notes or obligations, the payment of which is guaranteed by the USA.
- NYS bonds and notes.
- NYS bonds of any political subdivision.

Interest earned on the obligations being held as security is due to the contractor unless there is an agreement stating otherwise. The fiscal officer is permitted to charge the contractor a service charge for receiving, handling and disbursing the obligations, as well as any funds and coupons. The service charge may not exceed a reasonable amount which is generally consistent with charges by a bank or trust company for such services.⁵

The following are the journal entries for withholding retainage on a municipal office building construction contract when it is not yet owed to a contractor.

1. To record payment to the contractor for construction-in-progress (billing of \$10,000 with 10 percent retainage withheld).

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$9,000	
H1620.24 Building Construction	\$9,000		
H200 Cash			\$9,000

Account	Subsidiary Account	Debit	Credit
H521 Encumbrances		\$1,000	
H1620.24 Building Construction	\$1,000		
H821 Reserve for Encumbrances			\$1,000

2. To reclassify the form of retainage when the contractor replaces retained cash with eligible securities.

Account	Debit	Credit
H455 Securities and Mortgages	\$1,000	
H200 Cash		\$1,000

3. To release retainage to the contractor after completion of construction work.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$1,000	
H1620.24 Building Construction	\$1,000		
H455 Securities and Mortgages*			\$1,000

* If cash has been replaced by securities as in journal entry #2.

Account	Subsidiary Account	Debit	Credit
H821 Reserve for Encumbrances		\$1,000	
H521 Encumbrances			\$1,000
H1620.24 Building Construction	\$1,000		

For additional information on retainage, see our accounting bulletin entitled **Accounting for Retained Percentages**.⁶

Transfers From Capital Reserves

Capital reserves are reported as restricted fund balance in the fund financing the reserve or in the authorized capital projects fund. Once a project has been authorized by the board to include the use of capital reserve moneys (previously financed and accounted for in an operating fund), this money can be transferred to an authorized capital projects fund to pay project expenditures.⁷ However, the local government's accounting records must separate the reserve moneys from other capital project revenue sources.

The reserve's unexpended balance must be classified as restricted fund balance in the capital projects fund at year-end. Therefore, interfund revenues (H5031) derived from a transfer from capital reserves must be closed to restricted fund balance (H878) and project expenditures paid with reserve moneys must also be closed to restricted fund balance.

Example: The town board has approved a \$2.5 million capital project for the construction of a highway garage which will be financed in part by \$550,000 from the general fund building capital reserve. On November 5, the supervisor transfers the reserve moneys to the capital projects fund to be used to pay the board-approved project expenditures.

1. To record the transfer of capital reserve money from the general fund to the capital projects fund (assume this transfer had already been budgeted in the general fund).

Account	Subsidiary Account	Debit	Credit
A522 Expenditures		\$550,000	
A9950.9 Transfer to Capital Projects Fund*	\$550,000		
A230 Cash, Special Reserves			\$550,000

* This expenditure in the general fund must be closed to the capital reserve (A878) at year-end.

Account	Subsidiary Account	Debit	Credit
H230 Cash, Special Reserves		\$550,000	
H980 Revenues			\$550,000
H5031 Interfund Transfer	\$550,000		

2. To record the payment of November's board-approved project expenditures totaling \$245,100.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$245,100	
H5132.2 Garage, Capital Outlay	\$245,100		
H230 Cash, Special Reserves			\$245,100

3. To record the payment of December's board-approved project expenditures totaling \$187,345.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$187,345	
H5132.2 Garage, Capital Outlay	\$187,345		
H230 Cash, Special Reserves			\$187,345

4. To close project revenues and expenditures at year-end.

Account	Subsidiary Account	Debit	Credit
H980 Revenues		\$550,000	
H5031 Interfund Transfer	\$550,000		
H878 Capital Reserve			\$550,000
H878 Capital Reserve		\$432,445	
H522 Expenditures			\$432,445
H5132.2 Garage, Capital Outlay	\$432,445		

After making the closing entries, the capital projects fund's balance sheet at year-end would show the following:

Assets		Liabilities and Fund Equity	
H230 Cash, Special Reserves	\$117,555	H878 Capital Reserve	\$117,555
Total Assets	\$117,555	Total Liabilities and Fund Equity	\$117,555

Capital Project Debt

Note: As this guide is a reference for accounting and reporting for the capital projects fund, local government officials should consult with their municipal attorney for legal guidance related to debt issuances.

Serial Bonds

Serial bonds are authorized by NYS Local Finance Law (LFL) Section 21.00 and are often issued by local governments to finance long-term capital projects (i.e., generally, more than five years). Serial bonds may be issued for any object or purpose for which the issuer is authorized to expend money and for which the State Legislature has established a period of probable usefulness (PPU) (see LFL Section 11.00). The proceeds of serial bonds may only be used for the object or purpose for which the bonds were issued or to pay debt service on the bonds (LFL Section 165.00).

Statutory Installment Bonds (SIBs) may also be issued as a form of long-term debt, with certain limitations (LFL Section 62.10). This form of debt may have cost advantages for local governments, due to the issuance of a single bond rather than multiple serial bonds.

The issuance of bonds must be authorized by a bond resolution (see LFL Section 31.00) which, in most cases, must be adopted by at least a two-thirds vote of the finance board (see LFL Section 33.00). For example, in the case of a town board consisting of five members, four members would need to vote to affirm the bond resolution. However, a three-fifths vote is sufficient when either the bond resolution is subject to mandatory referendum, or the bond resolution provides that it must be submitted to a referendum in the manner authorized by or pursuant to LFL (see LFL Section 33.00).

Long-term debt, whether in the form of serial bonds or SIBs, must provide for annual principal payments, meaning that a portion of the bonds' principal amount must be repaid annually. As a rule, with certain exceptions, the first installment of serial bonds must mature within two years, measured from either the bond's issue date, or the date the first bond anticipation note (BAN) is issued in anticipation of the bonds, whichever is earlier. The last installment of serial bonds must mature by the expiration of the PPU of the object or purpose for which the bonds are issued.

The liability for long-term debt will not be recorded in the capital projects fund but will be recorded in the local government's Schedule of Non-Current Governmental Liabilities (W). When the serial bonds' proceeds are received directly by the local government, an accounting entry must be made to recognize the revenue in the capital projects fund.

The following journal entries illustrate how a town would record the issuance of a \$2 million serial bond in the capital projects fund for the construction of a municipal office building.

1. To record the issuance of serial bonds.⁸

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$2,000,000	
H980 Revenues			\$2,000,000
H5710 Serial Bonds	\$2,000,000		

2. A collateral entry must also be made in the Schedule of Non-Current Governmental Liabilities (W).

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$2,000,000	
W628 Bonds Payable		\$2,000,000

3. When it comes time to make the annual principal and interest payment on the bond, the payments would generally be recorded in the town's general fund.⁹

Account	Subsidiary Account	Debit	Credit
A522 Expenditures		\$85,117	
A9710.6 Serial Bond, Principal	\$66,667		
A9710.7 Serial Bond, Interest	\$18,450		
A200 Cash			\$85,117

4. A collateral entry must then be made in the Schedule of Non-Current Governmental Liabilities to reduce the serial bond payable liability by the amount of the principal paid.

Account	Debit	Credit
W628 Bonds Payable	\$66,667	
W129 Total Non-Current Governmental Liabilities		\$66,667

Bond Anticipation Notes

Bond anticipation notes (BANs) are used for short-term financing, generally five years or less, and are authorized by LFL Section 23.00. BANs may be issued only when bonds have been authorized. The local government controls the time at which a BAN matures and a BAN may be renewed from time to time, subject to a number of detailed restrictions. As a general rule, BANs and renewals cannot extend more than five years from the original date of issue. However, renewals of BANs issued for an “assessable improvement”¹⁰ may extend for more than five years from the original date of issue, but not beyond the improvement’s PPU.

Outstanding BANs must be redeemed from the proceeds of the sale of bonds in anticipation of which the notes were issued. If bonds are not sold, then the notes must be redeemed from any unencumbered balance in any fund which may be applied to that payment or by a budgetary appropriation. Prior to the sale of the bonds, the notes may be redeemed, in whole or in part, from any moneys which lawfully may be applied to the payment of the notes.

The accounting treatment for a BAN issued originally with a one-year or less maturity (short-term) differs from that of a BAN issued with a maturity in excess of one year (long-term).

BANs issued for one year are short-term and recorded as a fund liability. When and if the BAN is renewed and a portion is redeemed from a source other than bonds, an accounting entry must be made reducing the BAN liability. On the other hand, a project financed by a BAN issued for two years would be considered long-term and is accounted for the same as a bond, as an “other financing source.”

Short-Term vs. Long-Term BAN Issuance – Example and Journal Entries

Short-Term BAN – The following journal entries illustrate how to record a short-term BAN issuance (one year or less) of \$1 million with the general fund responsible for the BAN principal and interest payment.

1. To record the cash received from the BAN proceeds in the capital projects fund.

Account	Debit	Credit
H200 Cash	\$1,000,000	
H626 Bond Anticipation Notes Payable		\$1,000,000

2. To record the payment of BAN interest and principal in the general fund.

Account	Subsidiary Account	Debit	Credit
A522 Expenditures		\$49,730	
A9730.6 BAN Principal	\$45,000		
A9730.7 BAN Interest	\$4,730		
A200 Cash			\$49,730

3. Because a BAN is carried as a liability in the capital projects fund and the liability has been reduced, an additional entry needs to be made in the capital projects fund.¹¹

Account	Subsidiary Account	Debit	Credit
H626 Bond Anticipation Notes Payable		\$45,000	
H980 Revenues			\$45,000
H5731 BANs Redeemed From Appropriations	\$45,000		

4. When bonds are later sold to redeem the outstanding BAN, the following entries will be made in the capital projects fund.

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$955,000	
H980 Revenues			\$955,000
H5710 Serial Bonds	\$955,000		
H626 Bond Anticipation Notes Payable		\$955,000	
H200 Cash			\$955,000

5. A collateral entry must be made in the Schedule of Non-Current Governmental Liabilities (W).

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$955,000	
W628 Bonds Payable		\$955,000

Long-Term BAN – The following entries illustrate the accounting required in Year 1 when a long-term BAN of \$1 million has been issued and a bond is subsequently issued in Year 2 before the BAN matures.

1. To record the cash received from the BAN proceeds in the capital projects fund.

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$1,000,000	
H980 Revenues			\$1,000,000
H5730 Bond Anticipation Notes	\$1,000,000		

2. A collateral entry must also be made in the Schedule of Non-Current Governmental Liabilities (W) to recognize the liability created by issuing a long-term BAN.

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$1,000,000	
W626 Bond Anticipation Notes Payable		\$1,000,000

In Year 2, when a serial bond is issued prior to the BAN maturing, the following entries will be made.

3. To record the serial bond issuance.

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$1,000,000	
H980 Revenues			\$1,000,000
H5710 Serial Bonds	\$1,000,000		

4. To reclassify the BAN as a capital projects fund liability.

Account	Subsidiary Account	Debit	Credit
H980 Revenues		\$1,000,000	
H5730 Bond Anticipation Notes	\$1,000,000		
H626 Bond Anticipation Notes Payable			\$1,000,000

5. To record the reclassification of the liability for the issuance of a bond in the Schedule of Non-Current Governmental Liabilities (W).

Account	Debit	Credit
W626 Bond Anticipation Notes Payable	\$1,000,000	
W628 Serial Bonds Payable		\$1,000,000

6. To record the payment of the BAN with bond proceeds.

Account	Debit	Credit
H626 Bond Anticipation Notes Payable	\$1,000,000	
H200 Cash		\$1,000,000

The result of these entries in Year 2 is that the liability for the \$1 million of debt is now shown in the Schedule of Non-Current Governmental Liabilities (W) as serial bonds payable (W628) rather than BANs payable (W626), and the capital projects fund revenue has been changed from proceeds from a BAN to proceeds from a serial bond.

Installment Purchase Contracts

GML Section 109-b,¹² effective until July 15, 2021, authorizes political subdivisions (e.g., counties, cities, towns, villages, school districts, BOCES and fire districts) to finance the acquisition of equipment, machinery or apparatus through installment purchase contracts (IPCs). An IPC is defined, under GML Section 109-b, as a lease-purchase agreement, installment sales agreement or other similar agreement providing for periodic payments between a corporation, person or other entity and a political subdivision for the purpose of financing equipment, machinery or apparatus. Whether the agreements are called leases or lease-purchases, it is the substance of the agreement that is determinative. For example, an agreement will generally constitute an IPC if the title automatically passes to the political subdivision at the termination of the agreement or contract, or for a nominal fee.

The following entries illustrate how to account for the acquisition of a \$50,000 truck using an IPC and trading in a truck with a trade-in allowance of \$10,000 that was originally purchased for \$35,000.

1. To record the purchase of the truck in the capital projects fund (net cost).

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$40,000	
H5130.2 Equipment	\$40,000		
H980 Revenues			\$40,000
H5785 Installment Purchase Debt	\$40,000		

2. To record the liability for the IPC in the Schedule of Non-Current Governmental Liabilities (W).

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$40,000	
W685 Installment Purchase Debt		\$40,000

3. To record the acquisition of the new truck and the removal of the old truck from the Schedule of Non-Current Governmental Assets (K).

Account	Debit	Credit
K104 Machinery and Equipment	\$15,000	
K159 Total Non-Current Governmental Assets		\$15,000

IPC principal and interest payments will be made from the operating fund associated with the asset purchase (e.g., highway fund).

The following illustrates how an IPC's principal and interest payment would be recorded.

1. To record the periodic payment in a town's highway fund. Note: Towns with villages have the option of charging equipment purchases to either the town-wide (DA) or part-town (DB) highway funds.¹³

Account	Subsidiary Account	Debit	Credit
DA522 Expenditures		\$8,575	
DA9785.6 Installment Purchase Debt, Principal	\$8,000		
DA9785.7 Installment Purchase Debt, Interest	\$575		
DA200 Cash			\$8,575

2. To record the reduction of the IPC liability in the Schedule of Non-Current Governmental Liabilities (W).

Account	Debit	Credit
W685 Installment Purchase Debt	\$8,000	
W129 Total Non-Current Governmental Liabilities		\$8,000

Earnings on Investment of Debt Proceeds

Interest earned on the investment of proceeds of bonds or BANs may be applied to either the payment of principal and interest on such debt or for the object or purpose for which the debt was issued.¹⁴ However, if interest is earned on BANs and the BANs are subsequently redeemed from the sale of bonds, then the interest earned on the investment of the BANs must be used only for the payment of principal or interest on the bonds (LFL Section 165.00[b]).

The following journal entries illustrate how to record interest earned on the investment of proceeds of bonds and notes not authorized by the board as a financing source in a capital project.

1. To record the receipt of interest earned from investment of bond proceeds and the liability to the debt service fund.

Account	Debit	Credit
H200 Cash	\$1,030	
H630 Due To Other Funds		\$1,030

2. To record the interest earned revenue and the receivable in the debt service fund.

Account	Subsidiary Account	Debit	Credit
V391 Due From Other Funds		\$1,030	
V980 Revenues			\$1,030
V2401 Interest and Earnings ¹⁵	\$1,030		

3. To record the payment of interest earned to the debt service fund.

Account	Debit	Credit
H630 Due To Other Funds	\$1,030	
H200 Cash		\$1,030

4. To record the receipt of interest earnings in the debt service fund.

Account	Debit	Credit
V200 Cash	\$1,030	
V391 Due From Other Funds		\$1,030

Bank Accounts

With certain exceptions, a separate bank account is required for the proceeds of bonds, BANs or capital notes issued to wholly or partially finance a capital project.¹⁶

LFL Section 165.00 requires the proceeds from the sale of bonds, BANs and capital notes to be deposited in a special account in a bank or trust company located and authorized to do business in New York. Generally, the proceeds may not be commingled with other funds of the issuer and must be expended only for the object or purpose for which the obligations were issued. However, the finance board of any municipality, school district or district corporation may adopt a resolution to provide that:

1. The proceeds of capital notes issued in amounts of \$100,000 or less need not be deposited in a special account but may be deposited and commingled with other funds of the municipality, school district or district corporation in any account. The capital note proceeds would have to be used for the purpose for which they were issued.
2. The proceeds from the sale of any two or more issues of bonds, BANs and capital notes may be deposited in a single special account of the municipality, school district or district corporation, in a bank or trust company located and authorized to do business in New York, but may not be commingled with other municipal funds. The chief financial officer must maintain a separate accounting record of each issue to ensure that the proceeds are used only for the object or purpose for which the obligations were issued.
3. Additional funds appropriated for a purpose for which bonds, BANs and capital notes have been authorized (e.g., interfund transfers, State aid and federal aid) may be deposited in the same bank account with the proceeds from the sale of the obligations. However, this does not authorize the use of the proceeds of the obligations for an object or purpose other than that for which they were issued.

Disposition of Unexpended Balances

When a capital project has been completed, the board should pass a resolution stating the amount of the unexpended balance of the capital projects fund and its disposition. The disposition of the balance is determined by the source of a project's funding as follows:

Source of Balance	Disposition
Bonds and BANs	Transfer to the debt service fund to apply to debt on project bonds/BANs.
Interfund Transfer	Transfer back to the fund that provided the money and use for any legal purpose.
Multiple Sources (e.g., bonds, BANs, State/federal aid, interfund transfer)	Transfer to the debt service fund to apply to debt service on project bonds. It is assumed that the residual of a project financed by bonds and other sources is bond proceeds. ¹⁷

The actual transfer of the balance is accounted for as an interfund transfer. The disbursement from the capital projects fund and the receipt in the operating fund is recorded as an expenditure (9901.9 Transfer to Other Funds) and as revenue (5031 Interfund Transfer or 5050 Interfund Transfer for Debt Service), respectively, in each fund. A budget modification will be required to add an appropriation for 9901.9 and to reduce another capital project appropriation.

Example 1: At the end of a capital project for construction of a new building, all claims have been paid and all work is inspected and deemed complete by the town board. A residual amount of \$5,000 remains from the project. The project was fully funded by interfund transfers from a capital reserve in the general fund. The town board passes a resolution to modify the budget and allow the remaining \$5,000 to be transferred back to the capital reserve in the general fund.

1. To modify the budget.

Account	Subsidiary Account	Debit	Credit
H960 Appropriations		\$5,000	
H1620.2 Building Construction	\$5,000		
H960 Appropriations			\$5,000
H9901.9 Interfund Transfer	\$5,000		

2. To transfer remaining funds out of the capital projects fund to the general fund.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$5,000	
H9901.9 Interfund Transfer	\$5,000		
H230 Cash, Special Reserves			\$5,000

3. To record the transfer into the general fund.

Account	Subsidiary Account	Debit	Credit
A230 Cash, Special Reserves		\$5,000	
A980 Revenues			\$5,000
A5031 Interfund Transfer*	\$5,000		

*This revenue will be closed to capital reserve fund balance (A878) when closing entries are made.

Example 2: Assume the same scenario as the preceding example, except the residual money was from different sources, including debt.

1. To transfer to the debt service fund.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$5,000	
H9901.9 Interfund Transfer	\$5,000		
H200 Cash			\$5,000

2. To record the transfer into the debt service fund.

Account	Subsidiary Account	Debit	Credit
V230 Cash, Special Reserves (Debt Service)		\$5,000	
V980 Revenues			\$5,000
V5050 Interfund Transfer for Debt Service*	\$5,000		

*This revenue would be closed to restricted fund balance (V884) when closing entries are made.

New York State Environmental Facilities Corporation – State Revolving Funds

The NYS Environmental Facilities Corporation (EFC) provides local governments and public authorities with short- and long-term loans to finance eligible drinking water and clean water projects through its funding programs which include State Revolving Fund (SRF) loans and grants. Both the Drinking Water and Clean Water SRFs provide low- or no-cost financing for communities' water quality projects. The Drinking Water SRF provides funding for "certain eligible public water system projects for the protection of public health."¹⁸ The Clean Water SRF funds "wastewater and water quality improvement projects for municipalities throughout NYS."¹⁹ EFC loans are funded from either SRF bonds issued by EFC or from funds on hand.

EFC typically manages the proceeds of long-term loans and grants, releasing those funds to recipients as they meet the necessary disbursement requirements. Accounting for EFC financing is distinct from other forms of financing. The major differences are described below.

EFC makes the following information available to local government borrowers:

- A statement of sources and uses of funds (cost exhibit), a debt service schedule and an estimated net debt service schedule are provided at closing.
- Periodic billings for principal and interest on loans. These billings also provide information on the amount of interest earnings which have been applied to reduce the current bill.
- Copies of all approved requisitions for disbursements. These requisitions contain the balance on hand in the borrower's construction fund.

These programs provide financing for major capital improvements. As a result, projects financed through EFC should be accounted for in the capital projects fund. Debt liabilities are recorded in the same manner as when the local government issues bonds or BANs directly. Debt proceeds should be recorded to reflect the EFC control of proceeds. In addition, local governments should budget for debt service payments and recognize them as expenditures in the funds responsible for servicing the debt.

Long-Term Loans

Long-term loans are provided for Clean Water and Drinking Water projects that are eligible for financing. The local government applying for the EFC loan must adopt a bond resolution establishing the legal authority to issue debt in the full amount necessary for the project. After application approval, EFC authorizes a maximum amount that may be loaned from the State revolving loan fund. At the time of the closing, the local government issues serial bonds or a SIB to EFC for the full amount borrowed; the bond(s) are held by EFC as security and evidence of the loan transaction. Pursuant to the financing agreement, the entire issue amount is considered legal indebtedness of the local government.

There are two types of EFC long-term debt: leveraged and direct loans. Leveraged loans are made from EFC bond proceeds. EFC issues bonds and uses the bond proceeds to lend to local governments. EFC's bond proceeds are held by EFC in a trustee bank, and funds are wired to the local government's bank when documentation of incurred costs/expenditures is approved by EFC. Direct loan funding is provided from funds on hand in the revolving funds. Funds are deposited in EFC's trustee bank in the local government's name and are wired to the local government by the trustee after EFC approves the request for funds based on a review of authorized incurred costs/expenditures submitted by the local government.

Local governments may record interest earned on EFC long-term loans on a net, rather than gross, basis.²⁰ Cash assets from proceeds of long-term debt that are being held by the trustee should be recorded on the balance sheet as Cash with Fiscal Agent (H223). At any given time during the project, the balance in the H223 Cash with Fiscal Agent account represents the amount of proceeds currently being held for the local government by the trustee.

Long-Term Direct Interest-Free Loan – Example and Journal Entries

Example: A village board has authorized the construction of a wastewater treatment facility (facility). The project's estimated cost is \$2,013,879 consisting of the following costs:

- Engineering fees - \$245,333
- Legal fees - \$21,576
- Sewer plant construction - \$1,453,310
- Electrical - \$153,560
- Heating, ventilation and air conditioning (HVAC) - \$140,100.

The project will be funded with a 30-year, interest-free SIB through the EFC revolving loan program in the amount of \$1,663,879 and an interfund transfer from the sewer fund of \$350,000.

The following journal entries illustrate how to account for various transactions that occur during a typical project financed in part by an EFC long-term direct interest-free loan.²¹

1. To record the budget for the facility's construction.

Account	Subsidiary Account	Debit	Credit
H510 Estimated Revenues		\$2,013,879	
H5720 Statutory Installment Bonds	\$1,663,879		
H5031 Interfund Transfer*	\$350,000		
H960 Appropriations			\$2,013,879
H8197.21 Engineering Fees	\$245,333		
H8197.22 Legal Fees	\$21,576		
H8197.24 Plant Construction	\$1,453,310		
H8197.26 Electrical	\$153,560		
H8197.27 HVAC	\$140,100		

* This must also include an appropriation for the transfer in the sewer fund.

2. To record the issuance of SIBs through EFC in the amount of \$1,663,879. The proceeds will be held by EFC and disbursed when EFC approves invoices submitted by the village.

Account	Subsidiary Account	Debit	Credit
H223 Cash with Fiscal Agent		\$1,663,879	
H980 Revenues			\$1,663,879
H5720 Statutory Installment Bonds	\$1,663,879		

3. Collateral entry to be made in the Schedule of Non-Current Governmental Liabilities.

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$1,663,879	
W628 Bonds Payable		\$1,663,879

4. To record the \$350,000 transfer from the sewer fund to the capital projects fund.

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$350,000	
H980 Revenues			\$350,000
H5031 Interfund Transfer	\$350,000		

5. Collateral entry to be made in the sewer fund.

Account	Subsidiary Account	Debit	Credit
G522 Expenditures		\$350,000	
G9950.9 Transfer, Capital Projects Fund	\$350,000		
G200 Cash			\$350,000

6. To record the payment of the first month's invoices received for work performed by engineers (\$73,560), attorneys (\$4,678) and construction contractors (\$126,789). A 10 percent retainage amount will be withheld from invoices received from the construction contractor. Note: Similar entries would be made when paying other invoices during the project.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$192,348	
H8197.21 Engineering Fees	\$73,560		
H8197.22 Legal Fees	\$4,678		
H8197.24 Plant Construction	\$114,110*		
H521 Encumbrances		\$12,679	
H200 Cash			\$192,348
H821 Reserve for Encumbrances			\$12,679

* \$126,789 (construction contractors) less \$12,679 (10 percent retainage).

Note: Because the capital project's budget does not close out at fiscal year-end like other governmental funds, encumbrances will not be reversed and used to increase appropriations in the ensuing year. Instead, encumbrance and reserve for encumbrance balances in the capital projects fund will remain until contractors have completed the work to the satisfaction of village officials or they have substituted eligible securities for the cash withheld.

7. To record the receipt of a \$192,348 wire transfer from EFC for the first month's approved construction invoices.

Account	Debit	Credit
H200 Cash	\$192,348	
H223 Cash With Fiscal Agent		\$192,348

This same type of entry would be made when recording wire transfers from EFC during the project. As a result, the balance in the H223 Cash With Fiscal Agent account generally represents the amount of undisbursed bond proceeds being held by EFC.

Note: Amounts retained and encumbered on construction invoices will not be reimbursed by EFC until contractors meet the eligibility requirements for release of these funds.

8. To record the first SIB principal payment made from the debt service fund.²² The 30-year repayment schedule associated with the village's SIB issue requires the first-year principal payment of \$56,679, followed by 12 years at \$56,000 and 17 years at \$55,000.

Account	Subsidiary Account	Debit	Credit
V522 Expenditures		\$56,679	
V9720.6 Statutory Installment Bonds	\$56,679		
V200 Cash			\$56,679

9. Collateral entry to be made in the Schedule of Non-Current Governmental Liabilities.

Account	Debit	Credit
W628 Bonds Payable	\$56,679	
W129 Total Non-Current Governmental Liabilities		\$56,679

A similar entry will be made each time the sewer fund makes a principal payment on the SIBs.

10. To record the payment to construction contractors for retainage withheld by the village after satisfactory review of work performed. Retainage withheld and encumbered is as follows: plant construction - \$145,331; electrical - \$15,356; and HVAC - \$14,010.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$174,697	
H8197.24 Plant Construction	\$145,331		
H8197.26 Electrical	\$15,356		
H8197.27 HVAC	\$14,010		
H200 Cash			\$174,697

11. Entry necessary to liquidate encumbrances after releasing retained amounts to contractors.

Account	Debit	Credit
H821 Reserve for Encumbrance	\$174,697	
H521 Encumbrances		\$174,697

12. To transfer \$65,314 of excess (undisbursed) bond proceeds not needed to complete the project to the debt service fund.

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$65,314	
H9901.9 Interfund Transfer*	\$65,314		
H223 Cash with Fiscal Agent			\$65,314

* The capital projects fund budget must be amended to allow for this transfer.

13. Collateral entry to be made in debt service fund.

Account	Subsidiary Account	Debit	Credit
V223 Cash With Fiscal Agent		\$65,314	
V980 Revenues			\$65,314
V5050 Interfund Transfer for Debt Service*	\$65,314		

* In addition to necessary budget modifications, the interfund transfer revenue (V5050) in the debt service fund would need to be closed to restricted fund balance (V884) at or before the close of the fiscal year.

Note: Because the amount of excess bond proceeds held by EFC is not considered to be material enough to warrant a formal amendment to the repayment schedule, the \$65,314 will be used to reduce the village's principal payments due on the outstanding debt in future years. The village will consult with its legal counsel and EFC as to how and when this excess bond revenue is applied to future principal payments (see entries for Year 2 that follow). If the amount of unneeded bond proceeds is considered to be material, the repayment schedule could be amended.

14. The following entries show the accounting treatment for using the excess bond proceeds in paying down debt principal pursuant to the existing bond repayment schedule, which calls for bond principal payments of \$56,000 each year. The Year 2 payment is made using the excess bond proceeds. The Year 3 payment uses the balance remaining in excess bond proceeds plus available cash.

Account	Subsidiary Account	Debit	Credit
Year 2			
V522 Expenditures		\$56,000	
V9720.6 Statutory Installment Bonds	\$56,000		
V223 Cash With Fiscal Agent			\$56,000
Year 3			
V522 Expenditures		\$56,000	
V9720.6 Statutory Installment Bonds	\$56,000		
V223 Cash With Fiscal Agent			\$9,314
V200 Cash			\$46,686

15. Collateral entries to be made in the Schedule of Non-Current Governmental Liabilities.

Account	Debit	Credit
Year 2		
W628 Bonds Payable	\$56,000	
W129 Total Non-Current Governmental Liabilities		\$56,000
Year 3		
W628 Bonds Payable	\$56,000	
W129 Total Non-Current Governmental Liabilities		\$56,000

16. To close total revenues and expenditures to fund balance at the project's completion.

Account	Subsidiary Account	Debit	Credit
H980 Revenues		\$2,013,879	
H5720 Statutory Installment Bonds	\$1,663,879		
H5031 Interfund Transfer	\$350,000		
H912 Unrestricted Fund Balance			\$2,013,879
H912 Unrestricted Fund Balance		\$2,013,879	
H522 Expenditures			\$2,013,879
H8197.21 Engineering Fees	\$245,333		
H8197.22 Legal Fees	\$21,576		
H8197.24 Plant Construction	\$1,387,996		
H8197.26 Electrical	\$153,560		
H8197.27 HVAC	\$140,100		
H9901.9 Interfund Transfer	\$65,314		

For capital projects that span more than one fiscal year, a similar closing entry would need to be performed at each fiscal year-end prior to the project's completion.

17. To close the budgetary accounts at the project's completion upon the village board's authorization.

Account	Subsidiary Account	Debit	Credit
H960 Appropriations		\$2,013,879	
H8197.21 Engineering Fees	\$245,333		
H8197.22 Legal Fees	\$21,576		
H8197.24 Plant Construction	\$1,387,996		
H8197.26 Electrical	\$153,560		
H8197.27 HVAC	\$140,100		
H9901.9 Interfund Transfer	\$65,314		
H510 Estimated Revenues			\$2,013,879
H5720 Statutory Installment Bonds	\$1,663,879		
H5031 Interfund Transfer	\$350,000		

Note: Original budget was amended for the \$65,314 transfer to H9901.9 by reducing H8197.24.

For capital projects that span more than one fiscal year, a similar closing entry would need to be performed at each fiscal year-end prior to the project's completion.

18. To record cost of the project in the Schedule of Non-Current Governmental Assets.

Account	Debit	Credit
K102 Buildings – Sewer Plant	\$1,948,565	
K159 Total Non-Current Governmental Assets		\$1,948,565

Note: The total cost of the project would not include the transfer of \$65,314 in excess bond proceeds to the debt service fund.

Short-Term Loans

Short-term direct loans are limited term financing (up to five years) used to finance Clean Water and Drinking Water projects. Applicants that qualify for hardship financing may be eligible for interest-free financing, while applicants qualifying for subsidized financing may be eligible for a combination of interest-free and market-rate short-term loans.²³ These loans allow recipients to design and initiate construction on projects with limited interest expense, relative to the short-term rates available from commercial lenders. After approval of a local government’s application, EFC authorizes a maximum amount that may be loaned from the State revolving loan fund. To evidence these loans, a grid note is issued by the local government to EFC.²⁴ Debt is incurred by the local government as advances are made without the need to close a new loan every time proceeds are advanced. The local government’s legal indebtedness is limited to the cumulative amount of the advances. Funds are wired to the local government by EFC’s trustee after EFC approves the local government’s request for funds based on a review of the authorized incurred costs submitted by the local government.

Short-Term Direct Loan – Example and Journal Entries

Example: The City Council has authorized a sewer overflow improvement project with an estimated cost of \$5 million. The costs consist of the following: general construction cost of \$3,953,000, engineering fees of \$522,000, legal fees of \$200,000 and a contingency of \$325,000. The project will be funded by the issuance of interest-free, short-term grid notes in the maximum amount of \$3.75 million through the EFC revolving loan program in anticipation of the eventual issuance of serial bonds and a NYS grant for the lesser of \$1.25 million or 25 percent of eligible project costs. The City Council also authorized an interfund loan from the sewer fund to the capital projects fund in the amount of \$550,000 in order to provide start-up money for this project.

The following journal entries are the prescribed manner for recording typical transactions for a sewer overflow improvement project funded in part by an EFC short-term direct loan (\$3,750,000) and a NYS grant (\$1,250,000).

1. To record the budget for a sewer overflow improvement project.

Account	Subsidiary Account	Debit	Credit
H510 Estimated Revenues		\$5,000,000	
H5710 Serial Bonds	\$3,750,000		
H3990 State Aid, Sewer Capital Projects	\$1,250,000		
H960 Appropriations			\$5,000,000
H8197.21 Engineering Fees	\$522,000		
H8197.22 Legal Fees	\$200,000		
H8197.24 Building Construction	\$3,953,000		
H8197.28 Contingency	\$325,000		

2. To record the \$550,000 interfund loan from the sewer fund.

Account	Debit	Credit
H200 Cash	\$550,000	
H630 Due To Other Funds		\$550,000

3. Collateral entry to be made in the sewer fund.

Account	Debit	Credit
G391 Due From Other Funds	\$550,000	
G200 Cash		\$550,000

4. To record the payment of the first month's invoices received for work performed by engineers (\$33,560), attorneys (\$6,760) and construction contractors (\$378,789).

Account	Subsidiary Account	Debit	Credit
H522 Expenditures		\$419,109	
H8197.21 Engineering Fees	\$33,560		
H8197.22 Legal Fees	\$6,760		
H8197.24 Building Construction	\$378,789		
H200 Cash			\$419,109

Note: A similar entry would be made when paying invoices throughout the project.

5. To record the receipt of a \$419,109 wire transfer from EFC for the first month's approved construction invoices.

Account	Debit	Credit
H200 Cash	\$419,109	
H626 Bond Anticipation Notes Payable		\$419,109

A similar entry would be made when recording wire transfers from EFC throughout the project. Each time a new transfer is received, it will increase the BAN liability by the amount of the transfer. Generally, at the completion of the project, the cumulative amount of all BANs outstanding will be redeemed by issuing long-term bonds.²⁵

6. To record the first BAN debt service payment made from the sewer fund.

Account	Subsidiary Account	Debit	Credit
G522 Expenditures		\$100,013	
G9730.6 BAN Principal	\$100,013		
G200 Cash			\$100,013

7. Collateral entry to be made in the capital projects fund.

Account	Subsidiary Account	Debit	Credit
H626 Bond Anticipation Notes Payable		\$100,013	
H980 Revenues			\$100,013
H5731 BANs Redeemed From Appropriations	\$100,013		

Note: Similar entries will be made in the sewer fund and capital projects fund each time a BAN principal payment is made.

8. To record the repayment of the \$550,000 interfund loan from the sewer fund.

Account	Debit	Credit
H630 Due To Other Funds	\$550,000	
H200 Cash		\$550,000

9. Collateral entry to be made in the sewer fund.

Account	Debit	Credit
G200 Cash	\$550,000	
G391 Due From Other Funds		\$550,000

10. To record the receipt of a \$568,789 wire transfer from EFC from grant proceeds upon the submission of approved construction invoices.

Account	Subsidiary Account	Debit	Credit
H200 Cash		\$568,789	
H980 Revenues			\$568,789
H3990 State Aid, Sewer Capital Projects	\$568,789		

Note: Grant revenues are generally realized after the local government has received the maximum amount of the grid note proceeds approved for the project.

11. Budgetary entry to increase general construction appropriations by \$325,000 by transferring from the contingency appropriation.

Account	Subsidiary Account	Debit	Credit
H960 Appropriations		\$325,000	
H8197.28 Contingency	\$325,000		
H960 Appropriations			\$325,000
H8197.24 Building Construction	\$325,000		

12. To record the serial bonds issued at the project's completion that are used to redeem the outstanding BANs (assume the City had previously received draws for the entire \$3.75 million authorized).

Account	Subsidiary Account	Debit	Credit
H626 Bond Anticipation Notes Payable		\$3,649,987	
H980 Revenues			\$3,649,987
H5710 Serial Bonds	\$3,649,987		

13. Collateral entry to be made in the Schedule of Non-Current Governmental Liabilities.

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities	\$3,649,987	
W628 Bonds Payable		\$3,649,987

14. To close the capital project budget at the project's completion, with authorization from the City Council.

Account	Subsidiary Account	Debit	Credit
H960 Appropriations		\$5,000,000	
H8197.21 Engineering Fees	\$522,000		
H8197.22 Legal Fees	\$200,000		
H8197.24 Building Construction	\$4,278,000		
H510 Estimated Revenues			\$5,000,000
H5710 Serial Bonds	\$3,750,000		
H3990 State Aid, Sewer Capital Projects	\$1,250,000		

Note: The original budget was previously amended by transferring from the contingency appropriation to the general construction appropriation.

15. To close total revenues and expenditures to fund balance at each fiscal year-end or the project's completion.

Account	Subsidiary Account	Debit	Credit
H980 Revenues		\$4,698,675	
H5710 Serial Bonds	\$3,649,987		
H3990 State Aid, Sewer Capital Projects	\$948,675		
H5731 BANs Redeemed from Appropriations	\$100,013		
H522 Expenditures			\$4,698,675
H8197.21 Engineering Fees	\$522,000		
H8197.22 Legal Fees	\$200,000		
H8197.24 Building Construction	\$3,976,675		

Note: For capital projects that span more than one fiscal year, a similar closing entry would need to be performed at each fiscal year-end prior to the project's completion.

16. To record the project's cost in the Schedule of Non-Current Governmental Assets.

Account	Debit	Credit
K106 Infrastructure – Sewer Overflow Improvement Project	\$4,698,675	
K159 Total Non-Current Governmental Assets		\$4,698,675

Additional Resources

Accounting and reporting for capital projects can be a complex matter. As a result, we have developed several comprehensive examples and corresponding journal entries:

- **Sample Capital Project #1**
Construction of a new office building (City)
- **Sample Capital Project #2**
Purchase of a new highway truck with financing from reserves (Town)
- **Sample Capital Project #3**
Purchase of a new highway truck without using financing from reserves (Village)

Notes

- ¹ Local Finance Law Section 23.00(b) authorizes bond anticipation notes (BANs) to be issued for a period of up to five years. BANs issued for more than one year are considered long-term debt for accounting purposes and, similar to other long-term debt, the liability is recorded in the schedule of non-current governmental liabilities.
- ² www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf.
- ³ For more information and guidance on these issues, see the OSC *Local Government Management Guide: Seeking Competition in Procurement* at www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf.
- ⁴ In-kind services are services provided by one fund to another fund with no expectation of reimbursement.
- ⁵ See GML Section 106-a.
- ⁶ www.osc.state.ny.us/localgov/pubs/releases/files/AccountingRetainages.pdf.
- ⁷ Capital reserves are subject to various authorization requirements for establishment and for payment of expenditures. For more information see www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf for our *Local Government Management Guide: Reserve Funds*.
- ⁸ A similar journal entry would be made to record the issuance of a SIB in the capital projects fund. Revenue code H5720 Statutory Installment Bonds would be used in place of revenue code H5710 Serial Bonds.
- ⁹ A similar journal entry would be made to record the principal and interest on the SIB. Expenditure code 9720 Installment Bonds should be used in place of expenditure code 9710 Serial Bonds.
- ¹⁰ An assessable improvement is a capital improvement for which the cost is assessed in whole or in part against an area deemed benefited by the improvement by means of special ad valorem levies or special assessments (refer to OSC Opinion 83-157).
- ¹¹ Due to the use of BANs and the recording of other short-term liabilities, it is not uncommon for a capital projects fund to have a deficit fund balance.
- ¹² See also New York Codes, Rules and Regulations, Title 2, Part 39 (2 NYCRR Part 39).
- ¹³ See NYS Highway Law Section 277.
- ¹⁴ In addition, under federal arbitrage requirements, interest earned on the investment of the proceeds of bonds or notes, in certain instances, may be payable to the federal government (see also LFL Section 165.00[b]). The federal tax treatment of bonds or notes is beyond the scope of this publication. Municipalities should consult with their bond counsel with respect to questions or issues relating to federal arbitrage provisions.
- ¹⁵ This interest is restricted to payment of debt service on the BANs. It will be closed at year-end to account V884 Reserve for Debt.
- ¹⁶ Capital notes may be issued pursuant to LFL Section 28.00 to finance all or part of the cost of any object or purpose for which serial bonds may be issued (see LFL Section 11.00[a]), for a period of less than three years. The proceeds of capital notes must be used for the object or purpose for which the notes were issued.
- ¹⁷ LFL Section 165.00[a][3] requires that any moneys remaining after project completion be applied to the payment of the principal and interest on such obligations and any excess remaining may be used for any lawful purpose.
- ¹⁸ From the Drinking Water State Revolving Fund webpage: www.efc.ny.gov/drinkingwater.

Notes

- ¹⁹ From the Clean Water State Revolving Fund webpage: www.efc.ny.gov/cleanwater.
- ²⁰ EFC interest-free, long-term loans are generally structured so borrowers do not earn interest on loan proceeds.
- ²¹ Long-term leveraged loans, which are a funding option, are issued at subsidized interest rates. Journal entries for this specific type of loan are not provided in this document. Please see the journal entries in the Serial Bond Section (page 18) for guidance in accounting for loans with interest.
- ²² Payment could have been made directly out of the sewer fund. However, if a debt service fund is used, the sewer fund would need to budget for and make a transfer to the debt service fund for this payment.
- ²³ See the EFC website for more information on the financing options at www.efc.ny.gov.
- ²⁴ A grid note (a.k.a. bond anticipation note), as defined by EFC, “allows the Applicant to borrow only what it needs during the term of the Short-Term financing, up to a stated maximum principal amount. Debt is incurred by the Applicant as ‘disbursements’ are made under the ‘grid note,’ without having to close a new financing each time proceeds are advanced.”
- ²⁵ Occasionally, long-term bonds may be issued to redeem outstanding BANs prior to the project’s completion and prior to the disbursement of all available loan proceeds. In these situations, the bonds are generally issued for the amount of debt needed to fund the project based on the most recent project budget, and any undisbursed proceeds are then accounted for similar to the sample entries shown in the EFC Long-Term Leveraged Loan section of this publication.

Contacts



New York State Comptroller
THOMAS P. DINAPOLI

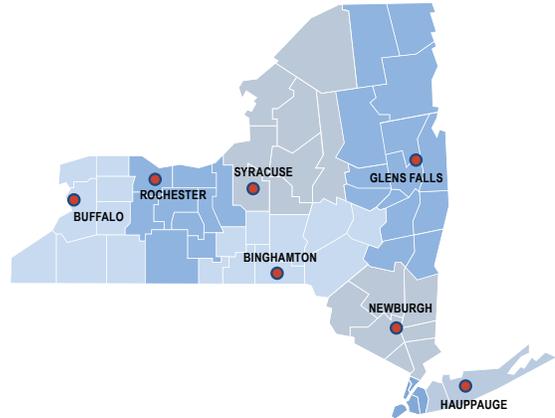
Division of Local Government and School Accountability

110 State Street, 12th Floor, Albany, NY 12236

Tel: 518.474.4037 • Fax: 518.486.6479

Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government



Andrea C. Miller
Executive Deputy Comptroller

Executive • 518.474.4037
Simonia Brown, Assistant Comptroller
Randy Partridge, Assistant Comptroller

**Audits, Local Government Services and
Professional Standards • 518.474.5404**
(Audits, Technical Assistance, Accounting and Audit Standards)

**Local Government and School Accountability
Help Line • 866.321.8503 or 518.408.4934**
(Electronic Filing, Financial Reporting, Justice Courts, Training)

Division of Legal Services
Municipal Law Section • 518.474.5586

**New York State & Local Retirement System
Retirement Information Services**
Inquiries on Employee Benefits and Programs
518.474.7736

Technical Assistance is available at any of our Regional Offices

BINGHAMTON REGIONAL OFFICE
Tel 607.721.8306 • Fax 607.721.8313 • Email Muni-Binghamton@osc.ny.gov
Counties: Broome, Chemung, Chenango, Cortland, Delaware, Otsego, Schoharie, Tioga, Tompkins

BUFFALO REGIONAL OFFICE
Tel 716.847.3647 • Fax 716.847.3643 • Email Muni-Bufferalo@osc.ny.gov
Counties: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming

GLENS FALLS REGIONAL OFFICE
Tel 518.793.0057 • Fax 518.793.5797 • Email Muni-GlensFalls@osc.ny.gov
Counties: Albany, Clinton, Columbia, Essex, Franklin, Fulton, Greene, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington

HAUPPAUGE REGIONAL OFFICE
Tel 631.952.6534 • Fax 631.952.6530 • Email Muni-Hauppauge@osc.ny.gov
Counties: Nassau, Suffolk

NEWBURGH REGIONAL OFFICE
Tel 845.567.0858 • Fax 845.567.0080 • Email Muni-Newburgh@osc.ny.gov
Counties: Dutchess, Orange, Putnam, Rockland, Sullivan, Ulster, Westchester

ROCHESTER REGIONAL OFFICE
Tel 585.454.2460 • Fax 585.454.3545 • Email Muni-Rochester@osc.ny.gov
Counties: Cayuga, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates

SYRACUSE REGIONAL OFFICE
Tel 315.428.4192 • Fax 315.426.2119 • Email Muni-Syracuse@osc.ny.gov
Counties: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence

STATEWIDE AUDIT
Tel 607.721.8306 • Fax 607.721.8313 • Email Muni-Statewide@osc.ny.gov

osc.state.ny.us



Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability

110 State Street, 12th floor
Albany, NY 12236
Tel: (518) 474-4037
Fax: (518) 486-6479
or email us: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm



Like us on Facebook at facebook.com/nyscomptroller
Follow us on Twitter @[@nyscomptroller](https://twitter.com/nyscomptroller)

